

Message Text

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ORIGIN EB-08

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SUBJECT: UNCTAD TDB MINISTERIAL MEETING, MARCH 6-11

REFTEL: GENEVA 03908

1. SUMMARY. THE UNCTAD MINISTERIAL LEVEL MEETING ON LESS DEVELOPED COUNTRY (LDC) DEBT CONCLUDED SUCCESSFULLY IN GENEVA ON MARCH 11. THE MINISTERIAL ADOPTED BY CONSENSUS A RESOLUTION WITH TWO OPERATIVE SECTIONS. THE FIRST SECTION COMMITS AID DONOR COUNTRIES TO "SEEK TO ADOPT MEASURES" THAT WOULD ALLOW THE TERMS OF PAST AID LOANS TO "POORER COUNTRIES" TO BE ADJUSTED TO THE EASIER TERMS OF TODAY. DONOR NATIONS, SUCH AS THE U.S., THAT STATUTORILY CANNOT FOLLOW THIS PATH ARE EXPECTED TO TAKE "EQUIVALENT MEASURES". THE U.S. IS ALREADY FULFILLING THIS COMMITMENT IN ITS PRE-LIMITED OFFICIAL USE
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SENT AID PROGRAM. THE SECOND SECTION SETS OUT FOUR BASIC CONCEPTS TO GUIDE INTERNATIONAL ACTION ON POSSIBLE FUTURE LDC DEBT PROBLEMS, AND PROVIDES FOR CONTINUED INTERNATIONAL DISCUSSION ON THIS ISSUE. ATMOSPHERE THROUGHOUT THE COURSE OF THE MEETING WAS POSITIVE, AND PARTICIPANTS GENERALLY VIEWED FINAL OUTCOME AS SATISFACTORY. THE U.S. DELEGATION WAS HEADED BY UNDER SECRETARY OF STATE RICHARD COOPER. END SUMMARY.

2. THE UNCTAD TRADE AND DEVELOPMENT BOARD (TDB)

MINISTERIAL-LEVEL MEETING CONCLUDED AFTERNOON OF MARCH 11 FOLLOWING ALL NIGHT SESSION WHICH PRODUCED AGREEMENT ON A RESOLUTION WHICH WAS ADOPTED BY CONSENSUS. THE TEXT OF THE RESOLUTION IS INCLUDED IN REFTEL.

3. THE RESOLUTION HAS A PREAMBLE AND TWO OPERATIVE SECTIONS. THE FIRST SECTION DEALS WITH RETROACTIVE TERMS ADJUSTMENT (RTA). THE OPERATIVE PARAGRAPH OF THIS SECTION STATES THAT "DEVELOPED COUNTRIES WILL SEEK TO ADOPT MEASURES FOR SUCH AN ADJUSTMENT OF TERMS OF PAST BILATERAL ODA, OR OTHER EQUIVALENT MEASURES...". THE REFERENCE TO "OTHER EQUIVALENT MEASURES" IS IN EFFECT AN ESCAPE CLAUSE FOR COUNTRIES (SUCH AS THE U.S.) WHICH MAY NOT HAVE STATUTORY AUTHORITY TO MAKE SUCH ADJUSTMENT. THESE COUNTRIES WOULD TAKE MEASURES OTHER THAN ODA RTA TO INCREASE AID FLOWS TO THE POORER LDCS. THE ADMINISTRATION IS ALREADY DOING THIS. IF CONGRESS APPROVES OUR AID REQUESTS FOR THIS YEAR, FLOWS TO THE LEAST DEVELOPED COUNTRIES WILL INCREASE BY 38 PERCENT. THE RESOLUTION STATES THAT BENEFICIARIES OF ANY DEVELOPED COUNTRY ACTION WILL BE DETERMINED WITHIN THE CONTEXT OF INDIVIDUAL DONOR COUNTRY AID PROGRAMS.

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4. THE FIRST SECTION OF THE RESOLUTION IS BASED ON A SEPTEMBER 1977 SUGGESTION BY THE SECRETARY GENERAL OF UNCTAD THAT THE TERMS OF PAST BILATERAL AID LOANS SHOULD BE ADJUSTED TO BRING THEM INTO LINE WITH THE SOFTER TERMS WHICH CURRENTLY PREVAIL. THE EFFECT OF SUCH AN ADJUSTMENT IS TO INCREASE THE NET FLOW OF AID TO RECIPIENT COUNTRIES. WHILE DEVELOPED COUNTRIES (GROUP B) GENERALLY SAW MERIT IN THE SECRETARY GENERAL'S SUGGESTION, THEIR ABILITY TO RESPOND POSITIVELY VARIED. THE RESOLUTION REFLECTS THIS REALITY.

5. THE SECOND SECTION OF THE TDB RESOLUTION RELATES TO AN UNCTAD IV RESOLUTION THAT CALLS ON MEMBERS TO DEVISE "FEATURES" FOR GUIDING FUTURE LDC DEBT OPERATIONS. THIS UNCTAD MANDATE HAD LED TO THE US/EUROPEAN COMMUNITY PROPOSAL ON DEBT WHICH WAS TABLED AT THE CONFERENCE ON INTERNATIONAL ECO;OMIC COOPERATION (CIEC) IN PARIS, MAY 1977 BUT NOT AGREED UPON. IN THE TDB RESOLUTION, THERE WAS AGREEMENT ON FOUR "BASIC CONCEPTS" WHICH WERE FULLY CONSISTENT WITH THE APPROACH TAKEN BY THE US/EC PROPOSAL. FOR THE FIRST TIME, THE G-77 FORMALLY ACCEPTED THE VALIDITY OF CASE-BY-CASE APPROACH. THEY ALSO RECOGNIZED THAT THE NATURE OF PROBLEMS MAY VARY "FROM ACUTE BALANCE OF PAYMENTS DIFFICULTIES REQUIRING IMMEDIATE ACTION TO LONGER-TERM SITUATIONS RELATING TO STRUCTURAL, FINANCIAL,

AND TRANSFER OF RESOURCES PROBLEMS REQUIRING APPROPRIATE LONGER-TERM MEASURES". THIS WAS A CONCEPT THAT THE G-77 HAD UP TO NOW RESOLUTELY RESISTED. THE TDB RESOLUTION ALSO PROVIDES FOR CONTINUED INTERNATIONAL DISCUSSION ON THE "FEATURES" ISSUE, BY REQUESTING THE SECRETARY GENERAL OF UNCTAD TO CONVENE A DEBT EXPERTS MEETING (REPORTING TO THE 10TH SPECIAL SESSION OF THE TDB PRIOR TO UNCTAD V IN MAY 1979) TO RECOMMEND MORE DETAILED FEATURES. THE G-77 PUSHED HARD FOR SUCH A DEBT EXPERTS GROUP. THE REASON IS NOT TOTALLY APPARENT EXCEPT THAT THE EXISTENCE OF SUCH A LIMITED OFFICIAL USE
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GROUP KEEPS THE DEBT ISSUE ALIVE. GROUP B, HOWEVER, MADE THEIR ACCEPTANCE CONDITIONAL ON G-77 AGREEMENT TO THE FOUR BASIC CONCEPTS. IN THE VIEW OF GROUP B, THIS WAS NECESSARY IF THE EXPERTS GROUP WAS TO HAVE A SOLID BASIS FOR DISCUSSION. GROUP B ALSO LINKED THE SECTION ONE STATEMENT ON RTA TO G-77 ACCEPTANCE OF BASIC CONCEPTS FOR DEBT OPERATIONS.

6. THE US/EC PROPOSAL MADE AT THE CIEC WAS OFFICIALLY TABLED AT UNCTAD ON MARCH 8 AND WAS CO-SPONSORED BY AUSTRALIA, AUSTRIA, CANADA, JAPAN, AND SWITZERLAND. G-77 RESPONSE WAS THAT ALTHOUGH THE PROPOSAL HAD USEFUL MERIT, IT DID NOT RESPOND FULLY TO LDC CONCERNS AND COULD NOT THEREFORE BE ACCEPTED BY THE G-77 AS THE SOLE RESPONSE TO THEIR DEMANDS.

7. WHILE THE ATMOSPHERE AT THE CONFERENCE WAS GOOD AND THE OUTCOME JUDGED MUTUALLY SATISFACTORY, THERE WAS CONSIDERABLE "HARD-BARGAINING" DURING THE COURSE OF THE MEETING. MOST ACTIVE LDC PARTICIPANTS WERE REPRESENTATIVES OF PAKISTAN, INDIA, BANGLADESH, JAMAICA, GHANA AND EGYPT. EGYPTIAN DELEGATE PROVED PARTICULARLY HELPFUL IN ADVOCATING LDC AGREEMENT ON GROUP B'S FOUR BASIC CONCEPTS OF THE "FEATURES" ISSUE. AT FINAL PLENARY SESSION, ONLY TANZANIA AND IRAQ MADE STATEMENTS EXPRESSING DISSATISFACTION WITH OUTCOME. ALSO OF NOTE IS THE MODERATE POSITION TAKEN BY THE UNCTAD SECRETARIAT AS IT STRIVED FOR ITS OWN BUREAUCRATIC REASONS TO HAVE A SUCCESSFUL OUTCOME OF THE FIRST INTERSESSIONAL MINISTERIAL LEVEL MEETING.

8. COMMENTARY: THE AGREED RESOLUTION IS IMPORTANT BECAUSE IT DEFUSES DEBT AS A CONFRONTATIONAL ISSUE IN THE NORTH/SOUTH DIALOGUE. THE DEBT ISSUE WILL NOT DISAPPEAR
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BUT THE RESOLUTION STANDS AS TESTIMONY THAT BOTH THE NORTH

AND SOUTH ARE WILLING TO ADDRESS THE ISSUE IN PRODUCTIVE DIALOGUE. ITS SIGNIFICANCE IS NOT SO MUCH IN ITS CONTENT BUT THAT IT EVIDENCES AN EDUCATIONAL PROCESS ON BOTH SIDES OF THE ISSUE THAT ALLOWED COMPROMISE OF DIVERGENT VIEWS IN A NEGOTIATING ATMOSPHERE.

9. ONE BASIC COMPROMISE IN THE DOCUMENT CONSISTS OF THE ACCEPTANCE IN PRINCIPLE BY DEVELOPED COUNTRIES OF THE VALIDITY OF RETROACTIVE TERMS ADJUSTMENT AS A MEANS OF INCREASING ODA. FOR THE DEVELOPED COUNTRIES, IT WAS ESSENTIAL THAT THEIR ACCEPTANCE OF THIS IDEA BE HEAVILY QUALIFIED: FIRST, THERE IS NO RECOGNITION OF A GENERALIZED LDC DEBT PROBLEM; SECOND, THERE IS NO OBLIGATORY LANGUAGE COMMITTING DONOR COUNTRIES; THIRD, TERMS ADJUSTMENT RELATES ONLY TO OFFICIAL DEVELOPMENT ASSISTANCE (ODA) AND IS THEREFORE AN AID ENHANCEMENT DEVICE, NOT A DEBT RESCHEDULING MECHANISM; AND FINALLY, THE DISTRIBUTION AND VOLUME OF NET AID FLOWS RESULTING FROM TERMS ADJUSTMENT OR EQUIVALENT MEASURES WILL BE DETERMINED BY THE DONOR COUNTRIES WITH NO AUTOMATICITY IN RESPECT TO CATEGORIES OF COUNTRIES OR LEVELS OF FLOWS.

10. THE GROUP B ACCEPTANCE OF RETROACTIVE TERMS ADJUSTMENT FOR "POORER COUNTRIES" IS PARTICULARLY SIGNIFICANT FOR THE LEAST DEVELOPED COUNTRIES, WHO CURRENTLY RECEIVE MOST OF THEIR NEW AID IN THE FORM OF GRANTS. NOT SINCE THE INTRODUCTION OF GENERALIZED SPECIAL PREFERENCES (GSP) HAS AN UNCTAD SECRETARIAT IDEA BEEN ACCEPTED AS WIDELY BY THE DEVELOPED COUNTRIES AND IN THIS CASE MUCH MORE RAPIDLY.

11. FURTHERMORE ACCEPTANCE BY DEVELOPED COUNTRIES OF THE IDEA OF RETROACTIVE TERMS ADJUSTMENT FOR "POORER COUNTRIES" IS QUITE BROAD. NORWAY AND AUSTRALIA PROVIDE ALL AID UNDER GRANT AND THEREFORE ARE NOT AFFECTED BY TERMS LIMITED OFFICIAL USE
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ADJUSTMENT. SWEDEN, CANADA, THE NETHERLANDS, AND SWITZERLAND HAD EARLIER COMMITTED THEMSELVES BY ACTION TO SOME VARIATION OF THE TERMS ADJUSTMENT IDEA. AT THIS TDB, DENMARK, THE UK AND THE FRG MADE PUBLIC POLICY COMMITMENTS TO TERMS ADJUSTMENT. UK MINISTER, FOR OVERSEAS DEVELOPMENT, JUDITH HART, MADE VERY POSITIVE STATEMENT REGARDING CONCEPT OF TERMS ADJUSTMENT, INDICATING IT IS LIKELY TO BE EMPLOYED ON A LARGE SCALE BASIS AS PART OF OVERALL UK AID POLICY. FRG DEPUTY MINISTER HERMES NOTED THAT THE FRG IS PREPARED TO CONSIDER CONVERTING ODA DEBT OWED BY THE LEAST DEVELOPED INTO GRANTS ON A CASE-BY-CASE BASIS. ONLY FOUR SIGNIFICANT DONORS WILL NOT USE SOME VARIANT OF TERMS ADJUSTMENT: BELGIUM, FRANCE, JAPAN, AND THE U.S. (FYI: THE HUMPHREY AID BILL, NOW BEING CONSIDERED BY THE SENATE

AND HOUSE COMMITTEES, INCLUDES A SECTION, 208 (C), WHICH WOULD PROVIDE THE EXECUTIVE BRANCH THE AUTHORITY TO WAIVE INTEREST PAYMENTS ON FAA DEBT OWED BY THE LEAST DEVELOPED COUNTRIES, AND ALLOW PRINCIPAL PAYMENTS IN LOCAL CURRENCY. THIS LOCAL CURRENCY WOULD THEN BE USED TO FINANCE LOCAL COSTS OF MUTUALLY AGREED DEVELOPMENT PROJECTS. THE

ADMINISTRATION SUPPORTS THIS SECTION OF THE BILL BUT IF IT APPEARS THAT THERE IS MAJOR CONGRESSIONAL RESISTANCE WE WOULD NOT ACTIVELY PUSH ITS ACCEPTANCE. EXPECTATIONS OF PASSAGE OF THE BILL IN THIS CONGRESS ARE UNCERTAIN AT THIS TIME. IF CONGRESS DOES APPROVE SECTION 208(C) THIS WOULD BE IMPLEMENTED ON A SELECTIVE CASE-BY-CASE BASIS. END FYI)

12. GROUP B'S FAVORABLE POSITION ON RETROACTIVE TERMS ADJUSTMENT WAS UNDOUBTEDLY AN IMPORTANT FACTOR IN THE LDC COMPROMISE IN ACCEPTING BASIC CONCEPTS FOR DEALING WITH FUTURE DEBT PROBLEMS OF INDIVIDUAL COUNTRIES. WHILE THE CONCEPTS APPEAR MODEST, AND IN SOME CASES SELF-EVIDENT, LIMITED OFFICIAL USE
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THEY ARE AN IMPORTANT ADVANCE IN WHAT UP TO NOW HAD BEEN A STERILE NORTH-SOUTH DEBATE. THE PREVIOUS G-77 POSITION HAD FOCUSED ALMOST EXCLUSIVELY ON DEMANDS FOR IMMEDIATE AND GENERALIZED RELIEF ON ALL OFFICIAL DEBTS.

13. THE FAVORABLE OUTCOME OF THE CONFERENCE AND THE CONSTRUCTIVE ROLE THE US WAS ABLE TO PLAY WERE TO A CERTAIN DEGREE A RESULT OF THE MODERATE US POSITION ON RETROACTIVE TERMS ADJUSTMENT. WHILE WE COULD NOT COMMIT OURSELVES CATEGORICALLY TO TERMS ADJUSTMENT WE WERE ABLE TO COMMIT IN PRINCIPLE TO SERIOUSLY CONSIDERING THE IDEA. THEREFORE, NOT OBJECTING TO THE IDEA OF RTA IN THE RESOLUTION, AS LONG AS IT INCLUDED AN ESCAPE CLAUSE, ALLOWED THE US NEGOTIATOR TO JOIN GROUP B IN A STRATEGY OF LINKING ACCEPTANCE BY GROUP B OF TERMS ADJUSTMENT TO THE G-77'S ACCEPTANCE OF THE BASIC CONCEPTS IN THE US/EC DEBT FEATURES PAPER. SECONDLY, THE US POSITION ON TERMS ADJUSTMENT PROVIDED ENOUGH FLEXIBILITY IN GROUP B THAT WITH A MODICUM OF PRIOR CONSULTATION GROUP B DRAFTERS WERE ABLE TO PROVIDE THE DOCUMENTS OFF WHICH THE CONFERENCE WORKED. THIS ADVANTAGE WAS ENHANCED BY DISORGANIZATION AND POOR LEADERSHIP IN THE GROUP OF 77.
VANCE

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